

**The Local Government Funding
and Structure Committee**

SIMPLIFICATION

In the ***21ST CENTURY***

Findings and Recommendations November 2000

"The collection and distribution system for these taxes and fees will be simple, efficient, accurate, and timely."

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SIMPLIFICATION

In the

21ST

CENTURY

Committee Authorized by the 1999 Legislature

DATE: October 6, 2000

TO: Governor Racicot
Representative John Mercer, Speaker of the House
Representative Emily Swanson, Minority Leader
Senator Bruce Crippen, President of the Senate
Senator Steve Doherty, Minority Leader

FROM: Representative Bob Story, Chairman
Harold Blattie, Vice Chairman

SUBJECT: Final Local Government Funding and
Structure Committee Report

We forward the following report from the Local Government Funding and Structure Committee established by Senate Bill 184 of the 1999 Legislature. The need for the committee was based on the prospect of an annual \$55 million property tax increase for local government and school budgets, which could occur if the SB184 reimbursements were allowed to sunset June 30, 2001, and the changes required to move all Montana governments toward the following SB184 vision.

We are dedicated to a partnership among state, county, city and school districts that is based on mutual trust and respect for local authority. This partnership will enable all governments to respond to the demands of their citizens in the 21st century through a revenue system that is simple, understandable, equitable, stable and adequate and through a revenue collections and distribution system that is simple, efficient, accurate and timely.

All governments and citizens deserve a revenue system that produces adequate and relatively constant revenue, treats individuals and businesses fairly, is easy for taxpayers to understand, minimizes administrative costs and has all economic activity and wealth contributing proportionally to support government service. A high quality revenue system is composed of taxes that complement one another

and the finances of both state and local governments. One especially important issue is the relationship of state and local taxing jurisdictions. State policy makers should consider how state tax decisions affect local governments, and local governments should consider how their budget decisions affect the taxpayer and the state revenue system. A high quality revenue system reflects the limitations and financial responsibilities state government places upon local government. State policy makers should be explicitly aware of the costs state mandates impose on local governments. Local government should have the authority to raise sufficient revenue to meet its obligations.

In working towards the vision and the concerns expressed, the committee established three primary goals.

1. Simplify billing, collection, accounting, distribution and reporting of all revenue
2. De-earmark revenue and eliminate expenditure mandates for local government
3. Create a rational, dependable, stable funding structure for cities and counties

Because the current Montana financial relationship among state, local and school finances is so complex and administratively cumbersome, the committee proposals require significant change from state agencies, counties, cities and schools. However, other than simplifying, de-earmarking, and removing limitations on local government, there is no intent to change the funding level or programs offered by any government entity. Due to de-earmarking, government entities may have more open revenue and budget reviews by the legislature and city and county commissioners.

A significant impact of the committee proposals is the trust that both state and local government officials must establish between themselves. The legislature will have less control over local government, and local government will have the right to receive an Entitlement Share of the general fund without specific revenue or expenditure requirements. Building this trust level will be a challenge. To expedite the trust building, local government audit provisions have been strengthened and local government financial laws have been revised to allow significantly more local financial flexibility and authority. The county and city treasurers become even more important to the local government officials. Their acceptance of the responsibility to account for all funds and establish accounting systems is very important to the trust building among all the state and local government entities. As the state gives more autonomy to local government, the county clerk and recorders, in their function as budgeting and accounting personnel, will make a major contribution in strengthening and demonstrating the local government accountability requirements.

The charge given to the committee was broad and comprehensive. We have done our best to address the most significant changes to begin building a real partnership and respectful working relationship among all government entities.

We would like to thank the many individuals who assisted the committee. The county treasurers, county clerk and recorders, county commissioners, city treasurers and city managers were extremely helpful. The Montana League of Cities and Towns and Montana Association of Counties attended every meeting and provided valuable insight. State agencies attended the meetings and assisted with committee requests. Four agencies provided the core of the research and analysis, the Office of Budget and Program Planning, the Legislative Fiscal Division, the Office of Public Instruction and the Department of Revenue. Many more individuals, too numerous to list, assisted the committee. The committee members could not have completed the work without everyone's help.

We would like to thank you for the opportunity to serve our state in this capacity. It has been a comprehensive task, which has enhanced our knowledge of Montana government operations and brought a great appreciation of the dedication that Montana public officials and staff have to public service.

We request your serious consideration of the proposals and your assistance in advancing these recommendations in the Montana Legislature.